

## COMMISSIONER OLSON PROPOSED AMENDMENT NO. 1

DATE PREPARED: September 29, 2021

COMPANY: Arizona Public Service Company

DOCKET NO.: E-01345A-19-0236

AGENDA ITEM NO. 1

OPEN MEETING DATE: October 4, 2021

**Purpose:** This amendment adopts RUCO's recommended ROE of 8.70%. RUCO calculated a COE of 8.94% on direct and a revised COE of 8.90% on surrebuttal. RUCO recommended 20-basis-point downward adjustment based on APS's "poor customer service," which resulted in RUCO recommending a ROE of 8.70% (ROO at 316). The amendment adopts a 0.15% Return on Fair Value Increment ("FVI"), which is half the amount recommended by Staff in the alternative, but it does not adopt a corresponding reduction to the COE because of the FVI.

The ROO as written did not adopt RUCO's downward adjustment, reasoning that APS's customer service performance is addressed in Section (IX)(B) (ROO at 323). However, the ROO's resolution is simply to "direct APS to work with Staff, RUCO, and any other additional parties who desire to participate on a CEOP for this rate case (and going forward) that addresses the recommendations made in the Overland Report, the Alexander Report, the Energy Tools report, and the Guidehouse Report" (ROO at 405).

The ROO's resolution fails to recognize that the Commission expects the utilities it regulates to maintain good customer service and satisfaction, especially considering APS's significant deficiencies detailed in the record. The ROO's resolution could have been reached in Docket E-01345A-19-0003, where the Commission was addressing problems with APS's Customer Education and Outreach program ("CEOP") and rate comparison tool. Instead, in November 2020, the Commission voted to administratively close this docket (Decision No. 77793) in part so the Commission could address this issue in a more thorough manner in this rate case.

A downward adjustment in ROE clearly communicates the Commission does not take lightly the fact that APS's errors in the rate comparison tool, along with its ineffective compliance with the CEOP that was ordered in its last rate case (Decision No. 77270), resulted in misleading information and incorrect rate recommendations being provided to customers. Requiring APS to further improve its CEOP, as the ROO as written does, simply is not enough to remedy the failure of APS to adequately communicate to its customers. In the marketplace, low customer satisfaction intrinsically decreases a company's earnings as customers turn to alternative providers of the company's goods and services. While customers of a regulated monopoly are unable to switch to a competitor, the fundamental principle of a decreased rate of return for a company with low customer satisfaction must still apply. The poor customer satisfaction reduces the limit on a rate

**THIS AMENDMENT:**☐ Passed ☐ Passed as amended by \_\_\_\_\_☐ Failed ☐ Not Offered☐ Withdrawn

that can be considered “just and reasonable” and in compliance with the Commission’s constitutional charge.

This amendment’s ROE of 8.70% results in a base rate revenue requirement of \$3,291.527 million, which represents a decrease of \$145.913 million from APS’s adjusted TY operating revenues of \$3,437.440 million. It amounts to an additional decrease of \$34.482 million from the ROO’s decrease of \$111.431 million.

Proposed changes are to the corrected ROO docketed on September 20, 2021.

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**Page 323, Line 10**

REPLACE “9.16%” WITH “8.70%”

**DELETE Page 323, Lines 11 through 13**

INSERT

“, which is RUCO’s calculated COE of 8.90% with a 20-basis point reduction to APS’s ROE as recommended by RUCO. This downward adjustment is justified by the deficiencies in APS’s customer service performance discussed further below in Section (IX)(B).”

**Page 329, Line 4**

DELETE “0.30% (the amount”

INSERT “0.15% (half the amount”

**Page 329, Lines 4 through 5**

DELETE “and to make a corresponding reduction to APS’s COE of 0.03%”

**DELETE Page 329, Lines 9.5 through 11**

INSERT

Capitalization	\$ Amount	% Amount	Cost Rate	Composite Cost
Common Equity	\$4,551,549	54.67%	8.70%	4.76%
Long-Term Debt	\$3,773,948	45.33%	4.10%	1.86%
			<b>WACC:</b>	<b>6.62%</b>

**Page 329, Lines 15.5 through 16.5**

DELETE “(as well as the related downward adjustment to the COE)”

<b>THIS AMENDMENT:</b>		
_____ Passed	_____ Passed as amended by _____	
_____ Failed	_____ Not Offered	_____ Withdrawn

INSERT “adopted herein”

**DELETE Page 329, Lines 18.5 through 21**

INSERT

	\$ Amount	% Amount	Cost Rate	Composite Cost
Common Equity	\$4,551,549	38.75%	8.70%	3.37%
Long-Term Debt	\$3,773,948	32.13%	4.10%	1.32%
FVI	\$3,418,936	29.11%	0.15%	0.04%
<b>FVROR:</b>				<b>4.73%</b>

**Page 329, Line 21.5**

REPLACE “4.95%” with “4.73%”

**DELETE Page 329, Lines 24.5-26.5**

INSERT

“In light of the other determinants made herein, we conclude that APS has a base rate revenue requirement of \$3,291.527 million, which represents a decrease of \$145.913 million from APS’s adjusted TY operating revenues of \$3,437.440 million and results in operating income of \$555.512”

**DELETE Page 330, Lines 2 through 15**

INSERT

	<b>APS Amended Application</b>	<b>Commission</b>
OCRB	\$8,896,268	\$8,325,497
RCND	\$15,734,140	\$15,163,369
FVRB	\$12,315,204	\$11,744,433
FVI	\$3,418,936	\$3,418,936
Operating Revenues	\$3,437,440	\$3,437,440
Operating Income	\$648,909	\$664,843
Current Rate of Return on OCRB	7.29%	7.99%
Required Operating Income on OCRB	\$652,096	\$551,148
Required Rate of Return on OCRB	7.33%	6.62%
Operating Income Deficiency on OCRB	\$3,187	(\$113,695)
Gross Revenue Conversion Factor	1.3346	1.3346
Increase in Base Revenue Requirement Based on OCRB	\$4,253	(\$151,737)

**THIS AMENDMENT:**

\_\_\_\_\_ Passed \_\_\_\_\_ Passed as amended by \_\_\_\_\_

\_\_\_\_\_ Failed \_\_\_\_\_ Not Offered \_\_\_\_\_ Withdrawn

Required Rate of Return with FVI	5.51%	4.73%
FVI Revenue	\$35,973	\$5,824
Requested/Required Increase in Base Revenue Requirement	\$40,226	(\$145,913)
Required Base Rate Revenue Based on FVRB	\$3,477,666	\$3,291,527

**Page 405, Line 5**

INSERT

“APS’s ineffective 2016 Rate Case CEOP, its error with the Rate Comparison Tool, and the resulting poor customer satisfaction must be properly addressed. Based on the Overland Report, we have already determined that there were significant deficiencies in APS’s 2016 Rate Case CEOP (Decision No. 77270). The overwhelmingly negative Alexander Report also identified substantial “shortcomings” and “deficiencies” in the CEOP. These deficiencies would explain much of the customer confusion and complaints after the new rates went into effect. As RUCO noted, the resulting poor customer satisfaction is reflected in APS’s low ranking among West Region utilities in J.D. Power’s 2019 rankings. Further, the EnergyTools Report confirmed that an error was introduced into the RC Tool 1 in February 2019, leading to incorrect recommendations until November 2019 when it was removed from APS’s website. APS was forced to refund customers that were identified as potentially affected by the errors in the rate tool. APS later provided additional refunds as part of its settlement with the Arizona Attorney General’s complaint against the Company related to its 2016 Rate Case CEOP and Rate Comparison Tool error. However, as the EnergyTools Report noted, because APS’s website did not fully log the data of users of RC Tool 1, it is impossible to assess how many customers used it and were influenced by it in selecting rate plans. In addition to the requirements we include below, APS’s poor customer service performance merits a 20-basis-point downward adjustment in ROE as recommended by RUCO and reflected in our resolution in Section (VI)(C).”

**Page 427, Line 14**

REPLACE “4.95%” WITH “4.73%”

***Make all conforming changes\*\*\****

<b>THIS AMENDMENT:</b>		
<input type="checkbox"/> Passed	<input type="checkbox"/> Passed as amended by _____	
<input type="checkbox"/> Failed	<input type="checkbox"/> Not Offered	<input type="checkbox"/> Withdrawn